

RD AN No. 3648 (1951-R)
May 16, 2001

SUBJECT: Rural Business Enterprise Grant Program
Sale of Real Property Assets Acquired with Agency Grant Funds

TO: State Directors, Rural Development

ATTN: Business Programs Directors

PURPOSE/INTENDED OUTCOME:

This Administrative Notice (AN) is intended to clarify the amount of reimbursement that a grantee may be required to pay in the event that it sells real property acquired with grant funds under the Rural Business Enterprise Grant (RBEG) program or the Industrial Development Grant program.

COMPARISON WITH PREVIOUS AN:

There is no previous AN on this subject.

IMPLEMENTATION RESPONSIBILITIES:

7 CFR 3016, section 3016.31(c)(2), concerning the disposition of real property, which is no longer needed for the original authorized purpose, states: A . . . The grantee will sell the property and compensate the awarding agency. The amount due to the awarding agency will be calculated by applying the awarding agency's percentage of participation in the cost of the original purchase to the proceeds of the sale after deduction of any actual and reasonable selling and fixing-up expenses. If the grant is still active, the net

EXPIRATION DATE:
May 31, 2002

FILING INSTRUCTIONS:
Preceding RD Instruction 1951-R

proceeds from sale may be offset against the original cost of the property. When a grantee or subgrantee is directed to sell property, sales procedures shall be followed that provide for competition to the extent practicable and result in the highest possible return. RD Instruction 1942-G, Attachment 1, section B, paragraph III A 3 states: A . . . When real property is no longer needed . . . , return all real property, furnished or purchased wholly with Federal grant funds to the grantor. In the case of property purchased in part with Federal grant funds, the grantee may be permitted to take title to the Federal interest therein upon compensating the Federal Government for its fair share of the property. The Federal share of the property shall be the amount computed by applying the percentage of the Federal participation in the total cost of the grant program for which the property was acquired to the current fair market value of the property.

You should inform the RBEG entities, in writing, that, in the event it sells real property financed with RBEG funds, it may be required to reimburse the Agency based on the percentage of Federal participation in the total cost of the property that was acquired or improved to the current fair market value of the property being sold. During your next field visit or Compliance Review, you should also go over this requirement with the grantee, so that it fully understands the potential impact when it sells these assets that were acquired or improved with grant funds administered by the Agency, and a written entry should be placed in the field visit report reflecting the contents of the discussion. In addition, you should confirm the discussion, in writing, to the grantee.

The Agency must be reimbursed, based on the percentage of Federal participation, any time real property assets financed with RBEG funds are sold. For example, RBEG funds may be used to develop the infrastructure of an industrial park for small and emerging private business enterprises. In these situations, if a lot is sold to a business that is not defined as a small and emerging private business enterprise, the grantee may be required to reimburse the Agency based on the percentage of the Federal participation in the cost of the original purchase to the current fair market value of the property being sold. In addition, as you are well aware, if RBEG funds were used to purchase or improve land in an industrial park and a lot is sold to any business, compensation by the grantee to the Agency shall be computed by applying the percentage of Federal participation in the cost of the original project or program to current fair market value of the property being sold. Additional guidance on this subject can be found in RD Instruction 1942-G, Attachment 1, section B, paragraph III A 3 regarding disposition of real or non-expendable personal property.

If you have any questions, please contact David Lewis, Loan Specialist, Specialty Lenders Division Servicing Branch, (202) 690-0797.

(Signed by William F. Hagy III)

WILLIAM F. HAGY III
Acting Administrator
Rural Business-Cooperative Service